

**ADMINISTRATION PROPOSAL FOR AN INCREASE
IN THE PUBLIC DEBT LIMIT**

HEARING
BEFORE THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
NINETY-SEVENTH CONGRESS
SECOND SESSION

MAY 25, 1982

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(III)

ADMINISTRATION PROPOSAL FOR AN INCREASE IN THE PUBLIC DEBT LIMIT

TUESDAY, MAY 25, 1982

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10:15 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Dan Rostenkowski (chairman of the committee) presiding.

[Press release announcing the hearing follows:]

[Press release No. 30, May 13, 1982]

HON. DAN ROSTENKOWSKI, CHAIRMAN, COMMITTEE ON WAYS AND MEANS, ANNOUNCES
A 1-DAY PUBLIC HEARING ON THE PUBLIC DEBT LIMIT TO BE HELD ON TUESDAY,
MAY 25, 1982

The Honorable Dan Rostenkowski (D., Ill.), Chairman, Committee on Ways and Means, today announced a hearing on the public debt limit to be held on Tuesday, May 25, 1982. At the hearing, the Committee anticipates that the Administration will recommend an increase in the public debt limit. Under present law, the limit on the public debt is \$1,079.8 billion through September 30, 1982, at which time the debt ceiling would revert to its permanent level of \$400 billion. Preliminary, unofficial discussions with Administration officials have indicated that the present debt ceiling will be reached prior to the present expiration date of September 30, 1982.

The hearing will begin at 10 a.m. in the Committee's main hearing room, 1100 Longworth House Office Building. The Committee anticipates testimony from Administration representatives, Members of Congress and the general public who request to be heard.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

It is urged that persons and organizations having a common position make every effort to designate one spokesman to represent them in order for the Committee to hear as many points of view as possible. Time for oral presentation will be limited with the understanding that a more detailed statement may be included in the printed record of the hearing. This process will afford more time for Committee members to interrogate witnesses. The witnesses will be grouped as panels to expedite the hearing, and strict time limitations will be established for each panelist.

The following is an outline of the procedure to be followed by organizations and individuals who either may want to appear and testify during this hearing or file a written statement for the printed record of the proceedings.

All requests should contain the following information:

1. The name of the witness, his title, address, firm affiliation and/or organization he will represent (as well as a telephone number where he or his designated representative may be reached).

2. If appearing in an individual capacity, a list of any clients at whose request or in whose employ the witness appears.

3. A topical outline or summary of comments and recommendations.

Requests to be heard must be made by telephone to Ms. Harriett Lawler [telephone (202) 225-3627] by the close of business, Thursday, May 20, 1982. The telephone request should be followed by a formal written request addressed to John J.

Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515.

Witnesses are required to submit 125 copies of their prepared statements to the Committee office, room 1102 Longworth House Office Building, at least 24 hours in advance of their scheduled appearances. Failure to comply with this rule may result in the witness not being allowed to testify.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

For those who wish to file a written statement for the printed record of the hearing, five copies are required and must be received by the close of business, Tuesday, May 25, 1982. These statements should contain the information listed in #1-3 earlier in this press release. The statements should be delivered to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. An additional supply of statements for the printed record may be furnished for distribution to the press and public if supplied to the Committee office during the course of the hearing.

Chairman ROSTENKOWSKI. This morning, the committee will receive testimony relating to the public debt ceiling. The present ceiling is \$1.0798 trillion. At the end of this fiscal year, September 30, 1982, the current temporary ceiling will expire and the debt limit will revert to its permanent level of \$400 billion.

I understand, however, that the present ceiling is insufficient to accommodate the budget deficit for the remainder of this fiscal year and that the present ceiling will be reached within the next few weeks.

The committee will thus have to act soon on the statutory debt ceiling.

Our first witness is Roger Mehle, Assistant Secretary of the Treasury for Domestic Finance.

Mr. Secretary, if you will proceed with your testimony, the committee is ready to receive it.

STATEMENT OF HON. ROGER MEHLE, ASSISTANT SECRETARY FOR DOMESTIC FINANCE, DEPARTMENT OF THE TREASURY

Mr. MEHLE. Thank you, Mr. Chairman, and members of the committee.

My purpose here today is to advise you of the need for congressional action to increase the public debt limit.

The present temporary debt limit of \$1,079.8 billion will expire on September 30, 1982, and the debt limit will then revert to the permanent ceiling of \$400 billion.

Based on the Office of Management and Budget's April estimates of fiscal year 1982 and fiscal year 1983 budget deficits of \$100.5 billion and \$101.9 billion, respectively, and other transactions affecting debt subject to limit, the amount of debt subject to limit outstanding on September 30, 1983 will total \$1,270 billion, assuming a \$20 billion cash balance on that date. Given this projected debt level, and allowing a \$5 billion margin for contingencies, we now recommend and request that the debt limit be increased to \$1,275 billion through September 30, 1983.

We recognize that Congress has not yet completed action on the first budget resolution for fiscal year 1983 and that that resolution may contain a different debt limit figure for fiscal year 1983. We do expect, however, that given the efforts in Congress to develop a 1983 budget with a deficit close to \$100 billion, any resultant debt subject to limit amount will be in the same order of magnitude as

the amount we are requesting. In that regard we urge that any budget resolution debt limit figure incorporate our recommended \$5 billion margin for contingencies and our assumption that the cash balance at the end of fiscal year 1983 will be \$20 billion.

As to the timing of congressional action on the debt limit bill, our current estimates indicate that final action on the bill will be needed by the 3rd week of June. This will give the Treasury sufficient time to auction a new 4-year note for subsequent issuance on June 30 to refund maturing securities and to raise the new cash needed at that time. The issuance of the 4-year note will cause the debt subject to limit to rise above the present statutory ceiling of \$1,079.8 billion. Treasury's earlier projection that action would be needed late in May has been changed due to a slightly lower estimate of our borrowing needs through early June because of a combination of higher receipts and lower outlays.

Timely action on the debt ceiling is required to avoid a repetition of past dislocations which have hampered Treasury financing operations. In recent years, delays in action on the debt limit have generated market uncertainty about Treasury financing schedules and on several occasions emergency measures have been undertaken, including suspension of savings bond sales, cancellation of scheduled security auctions and failure to fully invest trust funds. A point may be reached at which the President must consider which obligations should be paid—social security checks, payroll checks, unemployment checks, defense contracts—or, indeed, whether, for the first time in history, the United States will default on its securities, I hope we can avoid such problems this year.

In summary, Mr. Chairman, we urge that debt limit legislation be enacted promptly to provide the requested amount of increase in the debt limit of \$1,275 billion, to be effective upon the date of enactment and through the end of fiscal year 1983.

That concludes my prepared statement, Mr. Chairman. I will be happy to respond to your questions.

Chairman ROSTENKOWSKI. Mr. Secretary, isn't the administration's request for an extension through September 30, 1983, for an unusually long period of time?

Mr. MEHLE. Well, we are looking forward through the period of time which the budget covers and that will, of course, be through fiscal year 1983. It seems appropriate to request a debt limit that would cover the budget period. So that is why we do so.

Chairman ROSTENKOWSKI. Usually the Treasury Department requests a \$15 billion cash balance and a \$3 billion margin for contingencies. Mr. Secretary, your request today assumes a \$20 billion cash balance and a \$5 billion margin for contingencies.

Could you explain why the higher cash balance and the margin for contingencies is appropriate?

Mr. MEHLE. Yes, I can, Mr. Chairman.

Over the past several years the Treasury Department has noticed that the appropriate cash balance to carry into the last calendar quarter of the year has been higher on account of increased financing requirements, given the increased budget deficits which we have experienced. In fact, for the last several years, starting in 1977 fiscal year, the cash balance carried into the fourth calendar

quarter, which is, of course, the first fiscal year quarter, has been \$20 billion or thereabouts. In 1977 it was \$19.1 billion; in 1978 it was \$22.4 billion; in 1979 it was \$24.2 billion; in 1980, \$21 billion; and last year, \$18.7 billion.

It seems that the number of \$15 billion at this time, given our increased budget deficits and financing requirements therefrom, is unrealistically low.

As to the contingency amount which has conventionally been \$3 billion, the same reasoning applies. As we have been required to undertake more financing to account for greater budget deficits, the contingency amount properly should rise too. In fact, \$5 billion is really a number that is rather modest in light of the large financings that we have been undertaking.

Chairman ROSTENKOWSKI. Your request is for a \$195 billion debt ceiling increase through September 1983. Could you provide the committee with an estimate of the debt subject to limit for the end of each month through September 1983? I don't expect that estimate today.

Mr. MEHLE. I understand the question.

Yes, I certainly can furnish such an estimate through the end of fiscal year 1982. I am not sure that the numbers are available to break it out month to month through the end of 1983.

Chairman ROSTENKOWSKI. That will be fine, Mr. Secretary. If you could do that until the end of the year that would be satisfactory.

Mr. MEHLE. The end of this fiscal year?

Chairman ROSTENKOWSKI. The end of fiscal year 1983.

Mr. MEHLE. Right.

[The information follows:]

DEPARTMENT OF THE TREASURY,
Washington, D.C., May 27, 1982.

Hon. DANIEL ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: In response to your request at the May 25, 1982, debt limit hearing, I am pleased to provide the enclosed tables which show estimated public debt subject to limit at the end of each month through September 1983.

I hope this information is helpful. Please let me know if I can be of further assistance.

Sincerely,

ROGER W. MEHLE.

ESTIMATED PUBLIC DEBT SUBJECT TO LIMITATION—FISCAL YEAR 1982 ¹

[In billions]

	Cash	Debt, actual	With \$5,000,000,000 contingencies
1981:			
October 30	\$16.3	\$1,006.0	
November 30	7.8	1,014.3	
December 31	12.0	1,029.7	
1982:			
January 29	24.7	1,039.3	

ESTIMATED PUBLIC DEBT SUBJECT TO LIMITATION—FISCAL YEAR 1982 ¹—Continued

[In billions]

	Cash	Debt, actual	With \$5,000,000,000 contingencies
February 26.....	20.7	1,049.1	
March 31.....	13.0	1,062.2	
April 30.....	28.7	1,066.6	
May 31 (projected).....	8.0	1,075.0	
June 30.....	20.0	≈ 1,088.7	\$1,093.7
July 30.....	20.0	≈ 1,101.5	1,106.5
August 31.....	20.0	≈ 1,121.9	1,126.9
September 30.....	20.0	≈ 1,136.8	1,141.8

¹ Based on OMB April 1982 budget estimates, budget receipts of \$628,400,000,000, budget outlays of \$728,900,000,000, unified budget deficit \$100,500,000,000, off-budget outlays of \$20,900,000,000.

² Estimated.

ESTIMATED PUBLIC DEBT SUBJECT TO LIMITATION—FISCAL YEAR 1983 ¹

[In billions]

	Cash	Debt, actual	With \$5,000,000,000 contingencies
1982:			
October 29.....	\$20.0	\$1,144.1	\$1,149.1
November 30.....	20.0	1,152.6	1,157.6
December 31.....	20.0	1,168.1	1,173.1
1983:			
January 31.....	20.0	1,177.9	1,182.9
February 28.....	20.0	1,187.8	1,192.8
March 31.....	20.0	1,198.8	1,203.8
April 29.....	20.0	1,202.4	1,207.4
May 31.....	20.0	1,215.4	1,220.4
June 30.....	20.0	1,227.2	1,232.2
July 29.....	20.0	1,237.5	1,242.5
August 31.....	20.0	1,252.0	1,257.0
September 30.....	20.0	1,270.1	1,275.1

¹ Based on OMB April 1982 budget estimates, budget receipts of \$665,100,000,000, budget outlays of \$767,000,000,000, unified budget deficit \$101,900,000,000, off-budget outlays of \$15,800,000,000.

Chairman ROSTENKOWSKI. Mr. Conable will inquire.

Mr. CONABLE. I have no questions. I will read the testimony and I will be interested in knowing what you think our real options are as we go forward.

Chairman ROSTENKOWSKI. Mr. Pickle will inquire.

Mr. PICKLE. I haven't been able to hear the testimony, but let me ask you for my own information, did your testimony state when you think we would need to raise this public ceiling?

Mr. MEHLE. Yes; it does, Mr. Pickle.

I note that congressional action would be required by the third week in June so that in an orderly fashion we may auction a security which would be offered at that time under ordinary circumstances and deliver the security on June 30.

Mr. PICKLE. And it is your recommendation that we do take action by that time?

Mr. MEHLE. Yes; it is.

Chairman ROSTENKOWSKI. Mr. Rangel will inquire.

Mr. RANGEL. No questions, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Schulze will inquire.

Mr. SCHULZE. I have no questions.

Chairman ROSTENKOWSKI. Mr. Guarini will inquire.

Mr. GUARINI. No questions.

Chairman ROSTENKOWSKI. Thank you very much, Mr. Mehle.

The Chair calls Mr. James M. Hacking. Welcome to the committee, Mr. Hacking. If you will identify yourself for the record, you may proceed with your testimony.

STATEMENT OF JAMES M. HACKING, ASSISTANT LEGISLATIVE COUNSEL, NATIONAL RETIRED TEACHERS ASSOCIATION & AMERICAN ASSOCIATION OF RETIRED PERSONS

Mr. HACKING. I am Jim Hacking, assistant legislative counsel for the National Retired Teachers Association and American Association of Retired Persons.

These organizations now have a collective membership well in excess of 13 million persons age 55 and older.

I am accompanied today by one of my colleagues, Mr. Robert Brunner, who is one of our economists.

I would like to file the association's statement for the record and summarize.

Chairman ROSTENKOWSKI. Mr. Hacking, if you would like to summarize, your entire statement will be included in the record, without objection.

Mr. HACKING. Thank you.

It should be obvious even to the most casual observer that something extraordinary needs to be done to extricate the Nation from the current budgetary and economic situation—a situation caused in large measure, we think, by last year's tax bill.

Realistically we all know that Congress has no choice but to approve an increase in the debt ceiling. The Government has to pay its bills and we expect to support the necessary legislation.

However, the necessity for voting an increase in the debt ceiling provides yet another occasion to review economic and budgetary policy.

The economic situation has continued to change. Indeed, in some respects, there have been some improvements. Inflation has fallen from double-digit to moderate single-digit numbers largely because of the severity of the recession but also because of a worldwide oil surplus, energy conservation, and good harvests.

However, the low inflation rate has come at a high price, in the form of a depressed durable and capital goods sector. Everyone is familiar with the problems of the agricultural sector, the financial depository institutions, small businesses, the airlines and the housing, steel and auto industries.

But the trouble with the capital-goods industries goes further into the machinery and equipment-producing industries. The only sector that could even be rated as a source of strength is consumer spending. Last year the excessively large cuts in Federal tax revenue produced what has to be called a structural deficit in the Federal budget. That is a deficit over and above that caused by the current recession. It is this prospect that is probably the principal

factor keeping interest rates at high levels, and devastating interest rate sensitive industries, and hurting exports.

The cuts in personal income tax rates enacted last year were advertised and are certain to have an immediate "announcement" effect in stimulating increases in saving and investment even before the tax cuts themselves were to go into effect. But no such boom in savings and investment has materialized.

In fact, the capital-goods industries are severely depressed. It is a measure of the failure of the tax cut program that consumers are now being looked to to provide some stimulus to the economy and recovery from the current recession.

It may be asked why organizations representing older people are so disturbed by the present situation. After all, inflation has come down sharply and since most elderly are not in the labor market they have not been affected by the recession.

As far as it goes, this is true. The problem is this reasoning doesn't go far enough. Yes; inflation has come down but it is still running at much too high a level and in the continuing absence of a comprehensive anti-inflation economic program it could very well revive just as it did in the aftermath of the recession of 1974.

Even more important, the entitlement and other programs of vital importance to the elderly are threatened by the deficits and by continuing adverse economic conditions. So long as the structural deficit remains as large as it is, the temptation will be there to try to reduce it by drastically cutting entitlement program expenditures rather than by raising revenues as we think should be done.

A recession-weakened economy also means a weakened social security program as should have been demonstrated by what happened in the aftermath of the 1977 amendments.

Well, what do we do? First, it must be recognized that the budget and social security problems are the result of the failure of worker productivity to grow during the seventies as rapidly as it did in the fifties and sixties.

Second, it must be admitted that there are no easy solutions. If personal saving and investments are to be increased as a prerequisite for increasing productivity, consumption will have to be limited and cut back. Then somewhere down the road we should reap the reward in the form of higher living standards.

Third, steps have to be taken to restore the revenue base so that the Federal Government can fulfill its commitments to the elderly and other groups dependent on transfer payments.

A return to social Darwinism, whatever its theoretical attractiveness has not been endorsed by the electorate.

Public opinion polls show a preference for maintaining benefits and paying what it costs by higher taxes if that is necessary.

Fourth, whatever increase in defense expenditures is deemed necessary we think that increase must be financed through higher tax revenue.

The revenue base needs to be restored. We suggest the following measures but this list is not intended to be all inclusive. We think the Congress should begin by biting the bullet and rescinding the 1983 phase of reductions in personal income tax rates.

We recommend that indexing of the brackets be postponed at least until the budget is balanced. We recommend paring back tax

expenditures beginning with those that encourage consumer borrowing for things other than housing and autos and those tax expenditures that encouraged cost escalation in the delivery of health care services.

We recommend eliminating some of the Christmas tree ornaments of last year's tax cuts like the safe harbor leasing provision.

Also, the all-savers provisions should be allowed to expire on schedule and no new subsidies to mortgage borrowers should be undertaken.

The housing industry and home buying will not revive until interest rates come down and that in turn depends on making progress toward reducing future budget deficits. Additional subsidies will only make the budget deficits larger, we believe.

Last year's reduction in windfall profit taxes should be rescinded and a similar tax on deregulated natural gas should be instituted, especially if gas decontrol is accelerated or if all gas is decontrolled.

To sum up, the tax cuts of last year created a structural deficit which has to be eliminated by restoring the revenue base, not by scuttling income maintenance programs and other programs vitally important to the elderly and others with limited income.

The American people expect these programs to be maintained and are willing to pay the cost. Any increase in defense expenditures should be paid for by higher taxes over and above that necessary to restore the revenue base.

That concludes my statement, Mr. Chairman, and I thank you for having had this opportunity.

Chairman ROSTENKOWSKI. Thank you very much for joining us, Mr. Hacking.

Are there any questions of the witness?

[No response.]

Chairman ROSTENKOWSKI. Thank you very much.

[The statement of Mr. Hacking follows:]

STATEMENT OF THE NATIONAL RETIRED TEACHERS ASSOCIATION AND THE AMERICAN
ASSOCIATION OF RETIRED PERSONS

I appreciate the opportunity to appear before this Committee to present the views of the National Retired Teachers Association and the American Association of Retired Persons on what needs to be done currently to extricate the nation from the difficult budgetary and economic situation that has been caused in large measure by the Economic Recovery Act of 1981. Realistically, we all know that Congress has no choice but to approve the increase in the debt ceiling--the Government has to pay its bills. We also know that the necessity for voting an increase in the debt ceiling provides a useful occasion to review economic and, particularly for this Committee, fiscal policy.

Since the last time we testified before this Committee on this subject, the economic situation has changed dramatically, but I would hesitate to call the change an improvement, overall. There has been some improvement, we hasten to admit. Inflation has fallen from double-digit to well into single-digit range, largely because of the severity of the recession; but this lessening of inflation has been helped along by the fruition of energy conservation efforts and bumper crops of most foods and feedgrains. On the other hand, those bumper crops are helping to cause an exceptionally severe recession in the farm sector; but it can not be denied that they also have helped reduce inflation.

However, the very welcome lower inflation rate has been bought at a high price, in the form of a depressed durable and capital goods sector. Everyone is familiar with the problems of the housing, steel and auto industries, but the trouble in the heavy goods industries goes further--into the machinery and equipment producing industries. It also affects particular areas of the country, notably the Midwest and Great Lakes, as I am sure many of you are aware. When added to the cutbacks in state and local government spending and a sharp fall in net exports, the only sector left as even a possible source of strength is consumer spending.

The excessively large cuts in federal tax revenue produced by ERTA have produced a structural deficit in the federal budget, i.e., deficits over and above those caused by the current recession. This means that even when the economy does emerge from recession, there will be large deficits as far out as can be seen. It is this prospect that is probably the principal factor keeping interest rates high and devastating interest-rate sensitive industries. Besides the direct effect on these industries, and on state and local governments, high interest rates are also, by producing an overvalued dollar, hurting exports.

It is useful to compare the condition of the economy now with what it was expected to be at this time. The cuts in

personal income tax rates were advertised as certain to have an immediate "announcement" effect in stimulating increases in saving and investment, even before the tax cuts themselves were to go into effect. As the program's critics predicted, no such boom in savings and investment has taken place. In fact, the capital goods industries are severely depressed. It is a measure of the failure of the ERTA program that consumers are being looked to to provide stimulus to the economy; stimulus was supposed to come from the durable goods sector.

Elderly Hurt by Weak Economy

It may be asked why we, as representatives of the elderly, are so disturbed by the present situation. After all, inflation has come down sharply, and since most elderly are not in the labor market, they have not been affected by recession. This is true as far as it goes, but it doesn't go far enough. It is true that inflation has come down, but it still is running at much too high a level, and the real value of savings and un-indexed pensions is still eroding.

Equally or more important, the entitlement and other income maintenance and social service programs of vital importance to the elderly, and others with limited incomes, are threatened by the deficits and by continuously adverse economic conditions. So long as the structural deficit remains as large as it is, the temptation is always there to reduce it by drastically

cutting entitlement program expenditures, rather than by raising revenues, as should be done. In fact, that process has already begun with the social security minimum benefit, Medicare-Medicaid benefits, food stamp cuts and other program reductions. A recession-weakened economy also means a weakened Social Security program, as should have been demonstrated by what has happened since 1977. If the economy had behaved as was forecast, and hoped for, in 1977, there would have been no short-term financing problem today.

Well, what do we do to get out of the fix we are in? First, we must recognize that the budget and Social Security problems are the result of the failure of worker productivity to grow as rapidly (or in some years to grow at all) since the early 70's as it did in the 1950's and 1960's. If productivity has continued to grow at earlier rates, we would be concerned with "fiscal drag" and "fiscal dividend", to resurrect those almost-forgotten concepts.

Second, we have to admit that there are no easy solutions, and that ERTA cannot deliver on its promise of something for nothing. If saving and investment are to be increased, and we all agree that they need to be as a prerequisite for increasing productivity, consumption will have to be limited or cut back. Then, if we make the right investments, somewhere down the road we should reap the reward in the form of higher living standards; but, in the meantime, we can not escape the effects of the productivity decline.

Third, we have to take steps to restore the revenue base so that the federal government can fulfill its commitments to the elderly and other groups dependent on transfer payments. A return to "Social Darwinism", whatever its theoretical attractiveness, has not been endorsed by the electorate. Public opinion polls show, instead, a preference for maintaining the promised level of benefits and paying what it costs by higher taxes, if necessary.

Fourth, it follows that whatever increase in defense expenditures is deemed necessary must be financed by higher tax revenue.

Specific Revenue-Raising Steps

The revenue bases needs to be restored by the following measures:

1. Cancelling the third (1983) phase of cuts in personal income tax rates.
2. Postponing the introduction of indexing of the brackets until the necessary level of revenue is reached. We endorse the indexing of the brackets as the logical counterpart of indexing Social Security benefits because both forms of indexing are intended to offset inflation. However, the level of revenue, in real terms, has to be increased first.
3. Paring tax expenditures to broaden the revenue base, beginning with those that encourage

borrowing and cost inflation in hospital and medical care. It makes no sense to maintain the deductibility of interest, particularly for installment credit, when we are trying to stimulate savings. Nor does it make sense to allow unlimited tax deductions to employers for medical insurance premiums they pay. It should be noted that the recent decline in the general inflation rate has not been matched by any decline in inflation in medical care; it continues to bound upward. The goal should be to eliminate tax expenditures over time, so that the level of tax rates can be kept as low as possible.

This does not mean that we support a flat-rate general income tax. On the contrary, we think that the general income tax should be progressive; those who receive the most from society should pay the most. We do not believe that those who advocate switching to a consumption tax system have proven their case. Even if we grant that the present tax expenditure structure unduly favors consumption, among other faults, it does not follow that the whole burden of the tax system needs to be placed on consumption.

4. Eliminating the "safe harbor" leasing provisions, primarily because they offend most people's

notions of tax equity, although repeal would also bring in needed revenue. The so-called "All-Savers" provision should be allowed to expire on schedule, and no new subsidies to mortgage borrowers, such as those now being proposed, should be undertaken. The housing industry and home-buying will not revive until interest rates come down which, in turn, depends on progress made in reducing the budget deficit. Additional subsidies, such as those proposed, will only make the deficit larger.

5. Rescinding the reductions in the "windfall profits" taxes made in ERTA and instituting a tax on natural gas similar to the original tax on oil, if natural gas decontrol is accelerated or if "old" gas is decontrolled, as has been proposed by the Federal Energy Regulatory Commission.

6. Reducing tax evasion by enacting H.R. 5829 or similar legislation, except that, with respect to withholding on pension and annuity income, withholding should remain optional with the taxpayer.

To sum up, the tax cuts of 1981 created a structural deficit which has to be eliminated by restoring the revenue base, not by scuttling long-standing commitments to income maintenance and other programs vitally important to the elderly and others with limited incomes. The American people expect these to be maintained and are willing to pay the costs. Any increase in defense expenditures must be paid for by higher taxes, over and above those necessary to restore the revenue base.

Chairman ROSTENKOWSKI. The Chair calls Mr. James D. Davidson.

STATEMENT OF DAVID KEATING, LEGISLATIVE DIRECTOR, NATIONAL TAXPAYERS UNION, ON BEHALF OF JAMES D. DAVIDSON, CHAIRMAN

Mr. KEATING. Mr. Chairman, I informed the committee clerk that Mr. Davidson fell ill this morning and that he asked me to deliver his statement.

My name is David Keating. I am legislative director for the National Taxpayers Union.

With your permission, I will deliver his statement.

Chairman ROSTENKOWSKI. Welcome, Mr. Keating. You may proceed.

Mr. KEATING. Thank you.

Mr. Chairman, I appear representing the 450,000 family members of the National Taxpayers Union.

The public debt limit, as you well know, is ineffective in controlling Federal spending. Just like any other statute, it cannot exert real control on the Federal budget. This is largely for a number of technical reasons but the ultimate reason is that any statute can be repealed by a simple majority vote of Congress.

There are other further technical problems which I outline in my statement.

Statutes will also not work because they do not redress the problem Congress faces in responding to incentives built into our political system.

The only way fiscal order can ever be restored is by a constitutional amendment which limits the ability of Congress to spend and to borrow money.

The problem in controlling the Federal debt and balancing the budget is not a matter of Republicans versus Democrats. The problem is in the basic dynamics of the legislative process.

Congressmen are rewarded for spending on behalf of small organized constituencies at the expense of the large and unorganizable body of citizens.

For example, dairy subsidies are worth approximately \$7,000 for each dairy producer. But these subsidies cost the average taxpayer approximately \$18 per year. Countless examples like this one can be repeated by examining any program in the Federal budget.

Again and again the special group benefiting from the program will work hard to gain and keep the money. No one will work hard to save a few dollars. Even if they did, they would have to repeat the process thousands of times a year. From this imbalance ever-rising Government spending and ever-larger deficits have resulted.

The reason that we have a Bill of Rights is that our Founding Fathers recognized that it is folly to depend upon the ordinary legislative process to preserve freedom of speech, freedom of the press, or freedom in its other essentials.

By the same token, we cannot depend upon ordinary legislative processes to maintain fiscal responsibility. It simply doesn't work.

The States have found that this is true, 44 States now have constitutional restrictions on their public debt and deficits.

The need for fiscal control is urgent. We urge that the committee include a sense of the House resolution as part of the public debt limit bill stating the House's intention to fully debate a proposed constitutional amendment to balance the budget and limit Federal taxes on the House floor during this session of Congress.

We believe that it is time that Congress recognized that statutes have not worked and will not work. It is time to schedule a debate on the only approach that can work, the Balanced Budget-Tax Limitation amendment.

I would also like to add one other minor point. We think it would be prudent to budget a 5-percent contingency reserve for approximately \$37 billion in setting the new public debt limit.

Thank you.

[The prepared statement follows:]

STATEMENT OF JAMES DALE DAVIDSON, CHAIRMAN, NATIONAL TAXPAYERS UNION

Mr. Chairman and Members of the Committee, thank you for the opportunity to appear today concerning legislation to increase the public debt limit. I appear representing the 450,000 family members of the National Taxpayers Union in all fifty states.

Current law limits the public debt to 1,079.8 billion dollars through September 30, 1982. When this law expires, the debt limit would revert to its "permanent" level of 400 billion dollars. Educated guesses indicate that the dollar limit on the debt may be reached within the next four to six weeks.

The public debt limit is ineffective in controlling federal spending. Just like any other statute, it can exert no real control on the federal budget. The ultimate reason, of course, is that any statute can be repealed by a simple majority vote of Congress. This vote can even be a voice vote. Some statutes can even be ignored by Congress. This was the case the Public Law 95-435 which said that beginning in fiscal year 1981, total budget outlays of the federal government shall not exceed its receipts. Another problem with any federal spending control statute is that it can be effectively repealed by passage of an appropriations bill which is in conflict with the earlier spending control statute.

There is a further problem with the debt ceiling in controlling federal spending. When it expires, the debt ceiling reverts back to 400 billion dollars. Any attempt to control federal spending so that the public debt does not increase is all for naught. No matter what Congress and the President do, there's no way they can trim the public debt back to 400 billion dollars.

Statutes also will not work because they do not redress the problems Congress faces in responding to incentives built into our political system. The only way fiscal order can ever be restored is by a constitutional amendment which limits the ability of Congress to spend and to borrow money.

The problem in controlling the federal debt and balancing the budget is not a matter of Republicans versus Democrats. The problem is in the basic dynamics of the legislative process. Politicians are rewarded for spending on behalf of small organized constituencies at the expense of the large and unorganizable body of citizens. For example, dairy subsidies are worth approximately \$7,000 for each dairy producer. But these subsidies cost the average taxpayer approximately \$18 per year. Countless examples like this one can be repeated by examining any program in the federal budget. Again and again the special group benefiting from the program will work hard to gain and keep the money. No one will work hard to save a few dollars. Even if they did, they would have to repeat the process thousands of times a year. From this imbalance ever-rising government spending and even-larger deficits have resulted.

The reason that we have a Bill of Rights is that our founding fathers recognized that it is folly to depend upon the ordinary legislative process to preserve freedom of speech, freedom of the press, or freedom in its other essentials. By the same token, we cannot depend upon ordinary legislature processes to maintain fiscal responsibility. It simply doesn't work.

Today, our long-term economic stability is no longer beyond question. Staggering deficits stretch out on the economic horizon as far as the eye can see. These deficits will mean high interest rates, high inflation, or both. We would be fools if we at-

tempted to prove that America would be the exception to the rule that protracted financial turmoil weakens and eventually destroy free institutions.

The need for fiscal control is urgent. We urge the Committee to include a sense of the House resolution as part of the debt limit bill stating the House's intention to fully debate a proposed constitutional amendment to balance the budget and limit federal taxes on the House floor during this session of Congress. It's time that Congress recognized that statutes have not worked and will not work. It's time to schedule a debate on the only approach that can work—the Balanced Budget-Tax Limitation Amendment.

Chairman ROSTENKOWSKI. Thank you, Mr. Keating.

Are there any questions of the witness? Mr. Pickle will inquire.

Mr. PICKLE. Thank you, Mr. Chairman. I would like to know a little bit about your organization. What is your name?

Mr. KEATING. My name is David Keating, I am legislative director for the National Taxpayers Union.

Mr. PICKLE. Where are your offices here in Washington?

Mr. KEATING. Our offices are here in Washington, D.C. We represent 450,000 family members in all 50 States. We are the group that is the driving force behind the States' call for a limited constitutional convention to draft a balanced Federal budget amendment.

Mr. PICKLE. How long has your organization been in operation?

Mr. KEATING. We have been in operation since 1969.

Mr. PICKLE. The core of your operation, the one recommending the balanced budget constitutional amendment, has been operating since 1969?

Mr. KEATING. Well, we started our constitutional amendment drive in 1975 when we lobbied—

Mr. PICKLE. Your organization put out a poll here not too long ago rating the various Members and I understand you used some 15 votes. The votes by which you measured the Members were not made public when the ratings were released.

Have you made that public since that time?

Mr. KEATING. Our most recent annual rating rates Members of Congress on how often they vote to reduce Federal spending.

We included every rollcall vote on the level of Federal spending in the 1981 session of Congress—151 votes. The list of votes is available to anyone that requests a list and I will see that you get one if you would like.

Mr. PICKLE. So you had 51 votes that you measured?

Mr. KEATING. No, 151.

Mr. PICKLE. Well, I think you ought to send that to every Member of the Congress because you rated every Member of the Congress.

Mr. KEATING. Right.

Mr. PICKLE. Your ratings were classified in a manner that we never knew how they were arrived at or have no way to explain comment on it and I think it is rather odd that your organization would engage in that type of practice.

You have every right to rate us—as much as any other organization—and nobody would challenge that right but we would like to see the source of those measurements and I wish you would send me, and I think you ought to send every Member of the Congress, a copy of those votes so we could make an analysis of it.

Now, regarding your testimony today, do you think we should raise this national debt ceiling?

Mr. KEATING. Well, I think the Congress really has no other choice. We would prefer to see the Congress stick with the current limit at \$1.079 trillion.

Mr. PICKLE. We are not dealing now in preferences. The fact is we face the prospects of raising the national debt ceiling or not raising it.

Do you recommend that we not do it?

Mr. KEATING. No; as I said, I would recommend that the committee recommend as part of the resolution calling for a full debate on the proposed budget tax limitation amendment.

Mr. PICKLE. Some of us sponsored that. I see some of the members here at the table that sponsored this constitutional amendment.

I am a cosponsor of it and I think probably we reached the point where we need this kind of an amendment.

But the question today is do we raise this ceiling or not? You are not testifying that we shouldn't but we ought to do something different.

Mr. KEATING. There is a basic problem. The Ways and Means Committee does not control all Federal spending. That is a fundamental problem. I am not sure how you can get around it. I think if the committee had more power I think it would be prudent to set the ceiling a little bit higher than \$1,079 billion. Say \$1,100 billion, and put together a plan for ensuring that Federal spending is reduced so that \$1,100 billion limit is not reached.

Mr. PICKLE. Well, I hear you but we have got to vote yea or nay on this and I am just trying to find out if you recommend that we do raise the ceiling or do not raise the ceiling.

You just say it is a problem and we ought to do something differently in the months to come. You may be right about that but that is not our choice. We have to make a definite vote on this.

Chairman ROSTENKOWSKI. Are there any further questions?

Mr. GUARINI. Mr. Chairman, I have a question.

Does your organization have a copy of the proposed amendment so you could forward it to the members of the committee?

Mr. KEATING. A proposed copy of the balanced budget amendment?

Mr. GUARINI. That is right.

Have you written it and if so, how long is it and may we have a copy of it?

Mr. KEATING. Well, Mr. Conable is one of the primary cosponsors of the amendment we support. It is bill number House Joint Resolution 350 and I will see that you get a copy.

Chairman ROSTENKOWSKI. Thank you very much.

Mr. KEATING. Thank you.

[The bill referred to follows:]

97TH CONGRESS
1ST SESSION

H. J. RES. 350

Proposing an amendment to the Constitution altering Federal budget procedures.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 29, 1981

Mr. JENKINS, (for himself, Mr. CONABLE, Mr. BADHAM, Mr. BAFALIS, Mr. BAILEY of Missouri, Mr. BEARD, Mr. BENEDICT, Mr. BENNETT, Mr. BE-REUTER, Mr. BOWEN, Mr. BROWN of Ohio, Mr. CARMAN, Mr. CLAUSEN, Mr. COELHO, Mr. CORCORAN, Mr. CRAIG, Mr. ERDAHL, Mr. ERLNBORN, Mr. EVANS of Georgia, Ms. FIEDLER, Mr. FINDLEY, Mr. FLIPPO, Mr. FORSYTHE, Mr. GINGRICH, Mr. GINN, Mr. GRADISON, Mr. GREGG, Mr. GRISHAM, Mr. SAM B. HALL, Jr., Mr. HANSEN of Idaho, Mr. HARTNETT, Mr. HEFNER, Mr. HILER, Mr. HOLLAND, Mrs. HOLT, Mr. HORTON, Mr. HUBBARD, Mr. HUTTO, Mr. JOHNSTON, Mr. KRAMER, Mr. LAGOMARSINO, Mr. LATTA, Mr. LeBOUTILLIER, Mr. LEE, Mr. LENT, Mr. LEWIS, Mr. LEVITAS, Mr. LIVINGSTON, Mr. LUJAN, Mr. MARLENEE, Mr. MARRIOTT, Mr. MARTIN of North Carolina, Mrs. MARTIN of Illinois, Mr. McDONALD, Mr. McEWEN, Mr. MITCHELL of New York, Mr. MOORE, Mr. NAPIER, Mr. PARRIS, Mr. PETRI, Mr. PICKLE, Mr. PORTER, Mr. ROBERTS of South Dakota, Mr. ROBINSON, Mr. ROTH, Mr. ROUSSELOT, Mr. RUDD, Mr. SAWYER, Mr. SCHULZE, Mr. SENSENBRENNER, Mr. SHUMWAY, Mr. SIL-JANDER, Mr. SMITH of Oregon, Mr. SOLOMON, Mr. STUMP, Mr. TAYLOR, Mr. TRIBLE, Mr. VANDER JAGT, Mr. WATKINS, Mr. WHITEHURST, Mr. WHITTAKER, Mr. WILSON, Mr. WINN, Mr. WOLF, and Mr. CARNEY) introduced the following joint resolution; which was referred to the Committee on the Judiciary

JOINT RESOLUTION

Proposing an amendment to the Constitution altering Federal budget procedures.

1 *Resolved by the Senate and House of Representatives*
2 *of the United States of America in Congress assembled,*
3 *(two-thirds of each House concurring therein), That the fol-*
4 *lowing article is proposed as an amendment to the Constitu-*
5 *tion of the United States, which shall be valid to all intents*
6 *and purposes as part of the Constitution if ratified by the*
7 *legislatures of three-fourths of the several States within*
8 *seven years after its submission to the States for ratification:*

9 "ARTICLE —

10 "SECTION 1. Prior to each fiscal year, the Congress
11 shall adopt a statement of receipts and outlays for that year
12 in which total outlays are no greater than total receipts. The
13 Congress may amend such statement provided revised out-
14 lays are no greater than revised receipts. Whenever three-
15 fifths of the whole number of both Houses shall deem it nec-
16 essary, Congress in such statement may provide for a specific
17 excess of outlays over receipts by a vote directed solely to
18 that subject. The Congress and the President shall ensure
19 that actual outlays do not exceed the outlays set forth in such
20 statement.

21 "SECTION 2. Total receipts for any fiscal year set forth
22 in the statement adopted pursuant to this article shall not
23 increase by a rate greater than the rate of increase in nation-
24 al income in the last calendar year ending before such fiscal
25 year, unless a majority of the whole number of both Houses

1 of Congress shall have passed a bill directed solely to approv-
2 ing specific additional receipts and such bill has become law.

3 "SECTION 3. The Congress may waive the provisions of
4 this article for any fiscal year in which a declaration of war is
5 in effect.

6 "SECTION 4. The Congress may not require that the
7 States engage in additional activities without compensation
8 equal to the additional costs.

9 "SECTION 5. Total receipts shall include all receipts of
10 the United States except those derived from borrowing and
11 total outlays shall include all outlays of the United States
12 except those for repayment of debt principal.

13 SECTION 6. This article shall take effect for the second
14 fiscal year beginning after its ratification."

Chairman ROSTENKOWSKI. The committee will stand adjourned.
[Whereupon, at 10:45 a.m., the hearing was adjourned.]

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